

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' PLAN 2 RETIREMENT BOARD

Benefit Formula - Final Average Salary Initial Consideration

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1. Issue

The LEOFF Plan 2 Retirement Board requested a briefing on Final Average Salary (FAS) used in the LEOFF Plan 2 retirement benefit formula.

2. Staff

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3. Members Impacted

As of the most recent actuarial valuation, there were 14,560 active LEOFF Plan 2 members and 316 retirees. Changing the FAS could impact all LEOFF Plan 2 members and retirees.

4. Current Situation

FAS is defined as the monthly average of your sixty consecutive highest-paid service months. The current benefit formula is:

$$2\% \times \text{Years of Service} \times \text{FAS}$$

5. Background Information and Policy Issues

Benefit Formula

A defined benefit plan is a retirement income plan that provides specific benefits that are defined as soon as the member joins the plan. Typically, the formula equals a specified percentage multiplied against salary multiplied by years of creditable service at a certain age.

The current LEOFF Plan 2 benefit formula at normal retirement age is:

$$2\% \times \text{Years of Service} \times \text{Final Average Salary}$$

Service credit is provided only for service rendered as a fire fighter or law enforcement officer after establishing membership in the Plan. One service credit month is granted for each calendar month in which basic salary is received for 90 or more hours. No more than one service credit month may be obtained during any calendar month, even if basic salary is received for more than 90-hours from each of two employers in a month.

Beginning September 1, 1991, a 1/2 service credit month is granted for any month in which basic salary for at least 70-hours, but less than 90-hours, is received. A 1/4 service credit month is granted for basic salary received for less than 70-hours in a month. Years of service are calculated by dividing total service credit months by 12.

Final Average Salary

Final average salary (FAS) uses a predetermined number of months or years to determine an average monthly salary. The LEOFF Plan 2 system uses the highest consecutive sixty service credit months (5 years) to determine the FAS. A review of other state's plans reveal there are a number of different periods used to calculate final average salary. Some systems use a period of one year, while others, like LEOFF Plan 2, use five years.

Generally, if a shorter period is used for the years of service, the FAS calculation will be higher. This is especially true as wages rise over time.

In addition to the time period used in the calculation, another integral part of the calculation is to determine what is included in salary or "Basic Salary" as it is defined in law for LEOFF Plan 2 members. Some plans may include overtime earnings, lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, holiday pay or any form of severance pay.

LEOFF Plan 2 defines "Basic Salary" as salaries or wages earned by a member during a payroll period for personal services, including overtime payments and shall include wages and salaries deferred under plans established under 403(b), 414(h) and 457 of the United States Internal Revenue Code. Lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay are specifically excluded from "Basic Salary".

Final Average Salary in Other Washington State Plans

PERS Plans 2 & 3, TRS Plans 2 & 3, SERS Plans 2 & 3, WSPRS Plan 2 and PSERS, like LEOFF Plan 2, use the highest consecutive sixty-months (5 years) of service credit. PERS Plan 1, uses the greatest compensation earnable by a member during any consecutive two year period of service credit months. TRS Plan 1 uses the two highest compensated consecutive years of service for calculating average final compensation. WSPRS Plan 1 uses the average monthly salary received by a member during the member's last two years of service or any consecutive two-year period of service, whichever is greater.

What is included in salary varies among the systems and plans. For example, WSPRS Plan 1 and Plan 2 both exclude any overtime for earnings related to highway projects (construction projects) or voluntary overtime earned on or after July 1, 2001. For those state patrolmen commissioned on or after July 1, 2001 the exclusion includes lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, holiday pay, or any form of severance pay. PERS Plans 2 and 3 are similar to LEOFF Plan 2.

Final Average Salary in Other State Pension Plans

A 2004 study of "State Police" plans by *Workplace Economics, Inc.* found the most commonly used final average salary definition includes average salary for the three highest years of service earnings or average salary for the highest three consecutive years of service earnings.

In addition to the *Workplace Economics, Inc.* study, appendix A shows FAS periods for other state's police and fire fighters systems.

6. Supporting Information

Appendix A